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THE DIRECTOR OF CENTRAL INTELLIGENCE

WASHINGTON, D.C. 20505

DDI #146-82
8 January 1982

National Intelligence Council

NOTE FOR:

FROM: Maurice C. Ernst

SUBJECT: Comment on Wall Street Journal Article on the
Consequences of Polish-Soviet Trade

In case questions are raised about Zygmunt Nagorski's article in the Wall Street Journal of 8 January on the consequences of Polish-Soviet trade, here are some comments.

Nagorski argues that Poland's economic problems can be attributed largely to Soviet economic exploitation. He asserts that the USSR and Poland began in 1976 to trade in "transferable rubles," that this ruble has been overvalued, and that as a result Poland obtained unfavorable terms of trade with the Soviet Union. This Polish trade disadvantage and Soviet advantage in turn supposedly forced Poland to buy more from the West, and build up an enormous debt, while Moscow was able to substitute cheap Polish goods for Western goods.

This argument is totally false; Nagorski does not know what he is talking about.

- The transferable ruble has been used in intra-Bloc trade since the 1950s.

- All of the work on transferable rubles indicates that the terms of trade of the East European countries, including Poland, with the USSR, have been favorable in most years. This is because the USSR exports more raw materials and fuels to Eastern Europe than it imports from them, while the reverse is true for manufactured goods. Prices of oil and gas in intra-Bloc trade have been far below world market prices while those of raw materials on the average have been fairly close to world market prices. In the case of manufactured goods, however, Communist countries charge each other far more than they would receive in the West for the same products. In effect, prices of manufactures in intra-Bloc trade do not take into account adequately deficiencies in technology, quality, and marketing. The general point is that sustaining the East European empire has been an economic burden for the USSR, and not a source of economic exploitation.

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Of course, the fact that the East European countries are in the Soviet empire greatly constrains their policy options and forces on them a political and economic system that is cumbersome and inefficient. In that basic sense, the USSR can be blamed for Eastern Europe's economic problems.

The unusually severe dimensions of Poland's economic problems cannot be explained by systemic differences--the Polish economic system does not differ greatly from others in the Soviet orbit. They can be attributed to policy errors, especially the massive build up in the early and mid 1970s of imports of machinery and equipment from the West with inadequate regard to how these imports would ultimately have to be paid for and with inadequate consideration of the difficulties involved in absorbing new technology and managing new plants. There were also errors in agricultural policy and bad planning and management at the top.



✓ Maurice C. Ernst

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